

Kannaland Municipality

Draft Budget 2016/2017 to 2018/2019



Medium Term Revenue and Expenditure
Framework (MTREF)

31 March 2016

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Glossary

Adjustments Budget - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.
Allocations – Money received from Provincial or National Government or other municipalities.
Budget – The financial plan of Municipality.
Budget Related Policy – Policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debts collection policy.
Capital Expenditure – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.
Cash flow statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.
DORA – Division of Revenue Act. Annual piece of legislation that shows the amount of allocations from national to local government.
Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.
Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.
GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.
GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.
IDP – Integrated Development Plan. The main strategic planning document of the Municipality.
KPI's – Key Performance Indicators. Measures of services output and/or outcome.
MFMA – The Municipal Finance Management Act – on 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Rates – Local Government taxation based on an assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implemented Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget

Virement Policy – The policy that sets out the rules for the budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote – One of the main segments into which a budget is divided, usually directorate/department level.

1. PART 1- ANNUAL BUDGET

1.1 Mayoral Speech

The Mayoral Budget speech will be made available on the day of approval of the budget.

1.2 Council Resolutions

The Council of Kannaland Municipality at a meeting that will take place on 29 March 2016 will consider and approve the draft annual budget. The following draft resolutions are contained in the agenda of the Special Council meeting:

RECOMMENDATION

That Council takes note of the 2016/17 budget in terms of section 17(2) of the Municipal Finance Management Act, (Act 56 of 2003), as follows:

- a. that the following policies be noted as to reviewed and approved by no later than 30 May 2016:
 1. Customer Care, Credit Control and Debt Collection Policy;
 2. Property Rates Policy;
 3. Tariff Policy,
 4. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
 5. Indigent Policy;
 6. Virement Policy;
 7. Cash Management and Investment Policy;
 8. Supply Chain Management Policy;
 9. PPPFA Policy;
 10. Asset Management Policy;
 11. Funding Borrowing & Reserve Policy;
 12. Long Term Financial Plan;
 13. Liquidity Policy;
 14. Budget Implementation and Monitoring Policy.
 15. Bad debt write off policy
 16. Fleet Management Policy
 17. Grants-in-aid Policy
 18. Travel and Subsistence Policy
 19. Risk Management Policy
 20. Capital Contributions for new developments
 21. Water losses policy
 22. Electricity losses policy
 23. Public participation policy
- (b) that the annual budget for the financial year 2016/17 and indicative outer years 2017/18 and 2018/19 be noted in terms of section 17(2) of the MFMA as set-out:
 - (i) Capital expenditure by project as contained in annexure "A" to the agenda;
 - (ii) Capital funding by source as contained in annexure "A" to the agenda;
 - (iii) Operating revenue by source as contained in Table 1 of the report;
 - (iv) Operating expenditure by type as contained in Table 2 of the report;

- (c) that property rates as reflected in the report be imposed for the budget year 2016/17;
- (d) that tariffs and services charges as reflected in the formal tariff list be noted for approval for the budget year 2016/17;
- (e) that the capital funding, both internal and external funding, be secured prior to the commencement of any new capital project;
- (f) that the draft annual budget documentation for 2016/17 – 2018/19 as outlined in the budget regulations be submitted to National and Provincial Treasury.

1.3 Budget 2015/16 Mid-year Review and adjustments budget

The following table shows the original and adjustments budget for 2015/16.

Item	Original Budget 2015/2016 R	MYR Adjusted Budget 2015/2016 R	Difference R
Capital	30 544 900,00	42 464 085,00	11 919 185,00
Operating Income	123 574 100,00	174 916 540,00	51 342 440,00
Operating Expenditure	125 352 451,50	134 679 308,00	9 326 856,50

The 2015/16 adjustments budget was taken into account in the preparation of the 2016/17 MTREF. In particular, the operating budget is a direct result of this adjustment budget due to a very realistic approach being adopted during the adjustment budget process.

1.4 Executive Summary

A dedicated budget task team was established for the preparation of the 2016/17 budget. The budget task team was confronted with numerous challenges during the budget process. The following had an impact:

- a) The continued negative effect of the economic downturn, more so now that our national economic health is in a volatile state;
- b) The continuously arising service delivery shortcomings and the inability of the municipality to properly fund such;
- c) The inability of the municipality to establish a Capital Replacement Reserve in order to provide financial leverage for non-cash items in the budget;
- d) Insufficient funding allocation for the rehabilitation and/or replacement of components that have reached the end of their design life;
- e) inadequate maintenance budgets, which could be attributed to the municipality's limited income base;
- f) The existing challenge with the Eskom debt resulting in the repayments being funded from a large percentage of anticipated cash flow, yet no current income receivable on these past sales of electricity;
- g) Inadequate inter departmental cooperation with the preparation and implementation of the budget.
- h) Failure to implement strategic plans developed for the improvement of the financial health of the municipality.
- i) Kannaland's outstanding creditor book due to previous financial challenges which the current budget must provide for;
- j) Nersa's directive that bulk purchases will increase by 9.4% for municipalities and municipal electricity tariff increase should not exceed 7.64%.

The 2015/16 adjustments budget in February 2016 again proved that the ability of Council to reduce costs is limited due to the fact that the fixed cost component of the operating budget exceeds the variable costs by far. The adjustments budget nonetheless defined the basis for the draft 2016/17 budget.

A strategy will be applied to revive the financial recovery plan, adopted by Council on the 6th of December 2013 and to ensure this continues implementation and maintenance thereof. Council is currently in partnership with Municipal Infrastructure Support Agency (MISA) to develop a credible revenue enhancement plan.

The municipality needs to focus on its core functions. During the adjustments budget of 2016 the Budget Committee, Portfolio Councillors in conjunction with the Heads of Departments, scrutinised the budget to affect all possible savings.

The need to maximise income through efficiencies and the way we do business was investigated before we decided to increase our rates, service charges and other tariffs;

A revenue enhancement project was implemented to ensure that all consumers are billed correctly and are contributing to the municipality's income as set out in our tariff policy;

A provision was made for debtor's impairment in the operating budget. The writing off of irrecoverable debt will continue to be scrutinized through the business processes of the internal credit control unit. An internal credit control committee will be established to ensure that proper credit control measures are performed and to recommend the writing off of debt to council. Specific focus will be applied to the write off of indigent consumer debt of prior years.

The municipality could never in the past realise a Capital Replacement Reserve due to previous financial limitations. The revenue enhancement plan will however include the establishment of a CRR to be funded from a vigorous collection process to be applied in respect of prior year's outstanding debt. This process will be phased in over the next three (3) years, with the amount for 2016/2017 estimated to be R5m.

The capital contributions policy was reviewed to ensure that the municipality receives fair compensation from bulk capacity sold to bulk consumers;

The municipality adopted a hands-on cash management approach through a newly established cash flow management committee. The municipality's cash management policy will be in effect as from 1 July 2015.

No external loans will be sourced to fund capital projects. The capital acquisitions for 2016/2017 will be limited to the availability of cash funds.

The municipality has implemented a process to ensure that all available National and Provincial Government Grants are accessed in order to service part of our capital program.

The municipality is currently undertaking an internal land audit with the aim to identify properties which could be alienated, however the process is at the stage that any financial inflows will only be accounted for in the adjustments budget. These funds will be utilised to identify build the CRR.

In spite of the abovementioned challenges, the budget task team managed to build the tariffs around the CPI inflation base on the macro economic performance for 2014/2015 to 2018/2019. They have further applied electricity increases to be in line with Eskom tariffs in line with NERSA and National Treasury guidelines as issued in the budget circulars.

MFMA Circulars

National Treasury sent out MFMA Circular No. 78 on 7 December 2015 providing guidance to municipalities on their 2016/17 budgets and Medium Term Revenue and Expenditure Framework (MTREF). Circular 79 was followed up by Circular no. 78 dated 7 March 2016. Circular No. 78 & 79 reminds us of the key focus areas for the 2016/17 budget process, and that it must be read together with MFMA Circulars no. 48, 51, 54, 55, 58, 59, 66, 67, 70 and 72. It is essential reading material in order to understand the background to this budget.

National Treasury has also set out the requirements for funding the budget and producing a credible budget.

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Kannaland municipality strongly thrived to achieve the outcomes as outlined by the above legislation however due to inherent financial and other constraints it is not always possible to ensure that budgeted inflows break even with budgeted inflows. Our 2016/2017 proposed budget is however an indication that we are closer to achieving this objective.

Under old budget formats a 'balanced' income generated approach was a key objective and this assisted in ensuring that outflows were matched by inflows, provided revenue collections were realistic. However, GRAP compliant budgets necessitate that budget 'balancing' be much more comprehensive.

New budgeting and accounting formats demand that the budgeted Statement of Financial Performance (Income Statement), the Budgeted Statement of Financial Position (Balance Sheet) and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure effective financial management and sustainability and to ensure that the budget is funded.

A Credible Budget

Amongst other things, a credible budget is a budget that:

- Items budgeted for should be restricted to key performance indicators identified in the IDP for that specific period. Care should be however taken that provision is only made provided sufficient funding is available.
- The budget should be achievable in terms of agreed service delivery and performance targets.
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions.

- The financial viability of the municipality should at all times be considered in deciding the inclusion or exclusion of the budget (affordability confirmed prior to inclusion); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

1.5 – Budget Overview of the 2016/17 MTREF

This section provides an overview of the Kannaland Municipality's 2016/17 to 2018/19 MTREF. It includes an assessment of how the budget links with the national and provincial government contexts along with a review of the fiscal position of Kannaland Municipality.

The Municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Kannaland. Kannaland alone cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

According to Circular No. 79, the following headline inflation forecasts underpin the national 2016/17 Budget:

Fiscal Year	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Forecast		
Headline CPI Inflation	5,6%	5,4%	6,6%	6,2%	5,9%

The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies, unless it can be shown that external factors impact otherwise.

The budget process in Kannaland followed the requirements of the MFMA. A Table of key deadlines was tabled in Council by the Mayor in August 2015.

A budget task team was established to examine, review and prioritise budget proposals from departments.

For the 2016/2017 period, the Municipality is planning to spend R 54 589 850.00 on capital projects.

The MFMA requires municipalities to set out measurable performance objectives when tabling their budgets. These “key deliverables” link the financial inputs of the budget to service delivery on the ground.

As a further enhancement to this, quarterly service targets and monthly financial targets are contained in the Draft Service Delivery and Budget Implementation Plan (SDBIP). This must be approved by the Mayor within 28 days after the approval of the final budget and forms the basis for the Municipality’s in year monitoring.

In view of the aforementioned, the following table is a consolidated overview of the proposed MTREF:

Table 1 – Consolidated Overview of the 2016/17 MTREF

	Adjustments Budget 2015/16 R	Budget Year 2016/17 R	Budget Year 2017/18	Budget Year 2018/19
Total revenue excluding capital transfers and contributions		133,203,000.00	135,231,000.00	146,263,000.00
Less: Total Expenditure		(152,859,000.00)	(153,919,000.00)	(166,364,000.00)
Surplus/(Deficit) before capital transfers and contributions		34,823,000.00	50,852,000.00	32,939,000.00
Plus: Capital transfers and contributions		54 589 850,00	69,604,250.00	52,939,000.00
Surplus/(Deficit) before appropriations		(19,656,000.00)	(18,689,000.00)	(20,101,000.00)
Non-cash items needs to be counted back				

1.6 – Operating Revenue Framework

For Kannaland Municipality to continue maintaining / improving the quality of services provided to its citizens it needs to generate the required revenue.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines, Circular No. 78 & 79;
- The municipality's Property Rates Policy;
- The municipality's Credit Control and Indigent Policy and rendering of free basic services;
- Tariff policy and structure;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA).
- Revenue enhancement plan.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

Summary of revenue classified by main revenue source

WC041 Kannaland - Supporting Table SA1 Supporting detail to 'Budgeted Financial Performance'

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand											
REVENUE ITEMS:											
Property rates	6										
Total Property Rates		8,790	11,632	13,135	17,159	17,159	17,159	17,159	18,257	19,353	20,514
less Revenue Foregone		–	–	–	3,127	3,127	3,127	3,127	3,275	3,472	3,680
Net Property Rates		8,790	11,632	13,135	14,032	14,032	14,032	14,032	14,982	15,881	16,834
Service charges - electricity revenue	6										
Total Service charges - electricity revenue		33,437	34,708	34,658	36,651	40,508	40,508	40,508	49,765	52,751	55,916
less Revenue Foregone		–	–	–	1,139	1,139	1,139	1,139	806	854	905
less Cost of Free Basis Services		–	–	–	–	–	–	–	–	–	–
Net Service charges - electricity revenue		33,437	34,708	34,658	35,512	39,369	39,369	39,369	48,959	51,897	55,010
Service charges - water revenue	6										
Total Service charges - water revenue		4,199	10,066	13,775	12,626	13,912	13,912	13,912	12,402	13,146	13,935
less Revenue Foregone		–	–	–	1,843	1,843	1,843	1,843	2,862	3,034	3,216
less Cost of Free Basis Services		–	–	–	–	–	–	–	–	–	–
Net Service charges - water revenue		4,199	10,066	13,775	10,783	12,069	12,069	12,069	9,540	10,113	10,720
Service charges - sanitation revenue	6										
Total Service charges - sanitation revenue		3,979	4,146	5,161	9,591	9,591	9,591	9,591	8,515	9,026	9,568
less Revenue Foregone		–	–	–	1,261	1,261	1,261	1,261	2,831	3,001	3,181
less Cost of Free Basis Services		–	–	–	–	–	–	–	–	–	–
Net Service charges - sanitation revenue		3,979	4,146	5,161	8,330	8,330	8,330	8,330	5,684	6,025	6,386
Service charges - refuse revenue	6										
Total refuse removal revenue		3,279	4,543	4,846	7,868	7,868	7,868	7,868	8,697	9,219	9,772
Total landfill revenue		–	–	–	–	–	–	–	–	–	–
less Revenue Foregone		–	–	–	3,147	3,147	3,147	3,147	3,154	3,344	3,544
less Cost of Free Basis Services		–	–	–	–	–	–	–	–	–	–
Net Service charges - refuse revenue		3,279	4,543	4,846	4,722	4,722	4,722	4,722	5,543	5,876	6,228
Other Revenue by source	3										
Other Income		391	322	516	5,270	2,647	2,647	2,647	5,277	6,180	6,551
Debt Impairment		–	–	–	–	–	–	–	–	–	–
Public Contributions & Donations		45	154	63	–	–	–	–	–	–	–
CONNECTION FEES		–	–	–	128	99	99	99	29	31	33
AVAILABILITY FEES		–	–	–	614	614	614	614	651	690	732
Actuarial Gains		532	76	12	–	–	–	–	–	–	–
Taxation		–	4,167	4,256	–	–	–	–	–	–	–
Other Transfer Revenue		–	5,888	–	–	–	–	–	–	–	–
Rental Income		245	243	271	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	–	–	–
Total 'Other' Revenue	1	1,213	10,850	5,118	6,012	3,360	3,360	3,360	5,957	6,901	7,316

Revenue generated from property rates and service charges forms a significant percentage of the revenue source of the municipality and is not linked to a specific expense but rather to operating and general expenditure. The above table takes into account revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality and also capital transfers and contributions.

The increase in revenue is mainly due to:

- An increase in tariffs
- An increase in grant funding
- The Equitable Share allocation has increased (R22 391 000 – 2015/16 to 22 940 000 – 2016/17);
- The implementation of GRAP 1 had an impact on the calculation for the proposed Fines income;

The following table provides a breakdown of the various grants allocated to Kannaland Municipality over the medium term:

Table 3 – Grants allocation

Local government allocations 2016/2017 - 2018/19			
	2016-2017	2017-2018	2018-2019
National Grants (DORA)	70 917 000,00	85 692 000,00	70 311 000,00
Equitable share	22 940 000,00	23 893 000,00	25 178 000,00
RBIG - Kannaland Dam Reallocation	19 167 000,00	26 654 000,00	
RGIB - LDS & CAL WWTW	10 000 000,00	20 000 000,00	33 937 000,00
Financial Management Grant (FMG)	1 810 000,00	2 145 000,00	2 400 000,00
Expanded Public Works Program (EPWP)	1 000 000,00		
Integrated Nat Electrification programme (Municipal)	16 000 000,00	13 000 000,00	8 796 000,00
Provincial Grants (GAZETTE)	13 775 000,00	9 307 000,00	12 820 000,00
Library Services Replacement Fund	1 900 000,00	2 014 000,00	2 135 000,00
Human Settlement Development Grant	11 380 000,00	6 728 000,00	10 000 000,00
Proclaimed Roads	50 000,00		
Financial Management Capacity Building	120 000,00	240 000,00	360 000,00
Thusong Centre - Operational Support Grant	212 000,00	212 000,00	212 000,00
CDW's	113 000,00	113 000,00	113 000,00
Other	-	-	-
Total Allocations	84 692 000,00	94 999 000,00	83 131 000,00

SERVICE CHARGES AND MISCELLANEOUS TARIFFS:

The following tariff increases are proposed:

- Electricity : 7.64%
- Water : 10%
- Rates : 6%
- Refuse : 6%
- Sewerage : 6%
- Other : 7%

TARIFF CHANGES SUGGESTED FOR 2016/17**Rates Tariffs**

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

An increase of 6% in rates income will be raised for 2016/17.

The amnesty that was granted during the 2015/16 financial year for farm properties was stopped for the 2016/17 year. A detail analysis with similar municipalities needs to be finalised before any reduced rates can be applied.

PROPERTY RATES IN TERMS OF THE LOCAL GOVERNMENT: MUNICIPAL PROPERTY RATES ACT, 2004 (Act no. 6 2004), WILL BE LEVIED AS FOLLOWS:

A. PROPERTY RATES:

1.1 PROPERTY TAX ON ALL RESIDENTIAL PROPERTIES DESCRIBED IN SECTION 17(1)(h)(ii) OF ACT NO. 6 OF 2004 ARE AS FOLLOWS:

The tariff applied to the total valuation: R0,0119034

1.2 PROPERTY TAX ON ALL BUSINESS / INDUSTRIAL ZONED SITES ARE AS FOLLOWS:

The tariff applied to the total valuation: R0,0217192

1.3 PROPERTY TAX ON ALL AGRICULTURE AND PUBLIC SERVICE INFRASTRUCTURE ARE AS FOLLOWS:

The tariff applied to the total valuation: R0.0029775

1.4 PROPERTY TAX ON ALL GUESTHOUSES ARE AS FOLLOWS:

The tariff applied to the total valuation: R0,0148765

1.5 PROPERTY TAX ON ALL SPAZA SHOPS ARE AS FOLLOWS:

The tariff applied to the total valuation R0,0124978

1.6 PROPERTY TAX ON ALL PUBLIC BENEFIT ORGANISATION PROPERTIES ARE AS FOLLOWS:

The tariff applied to the total valuation R0.0023820

2. **THE FOLLOWING EXCLUSIONS / EXEMPTIONS / REBATES ON PROPERTY RATES WILL BE GRANTED:**

2.1 **EXCLUSION OF IMPERMISSIBLE RATES**

In terms of Section 17 of the Municipal Property Rates Act, 2004 (Act no. 6 of 2004) a Municipality may not levy a rate

2.1.1 on those parts of a nature reserve, national park or nature reserve within the meaning of the Protected Areas Act;

2.1.2 on the first R15 000.00 of the market value of a property assigned in the valuation or supplementary roll to a category determined by the Municipality:
(i) for improved residential properties;
(ii) for properties used for multiple purposes;

2.1.3 on a property registered in the name of and used primarily as a place of public worship, including an official residence which is occupied by an office-bearer.

2.2 **REBATE IN RESPECT OF ZONING**

2.2.1 Sites zoned for residential purposes and used for residential purposes only and of which the total valuation is R40 000.00 or less, will automatically be exempt from property rates;

2.2.2 Regarding sites zoned for improved residential purposes and used for improved residential purposes only and of which the valuation is R40 001.00 or more no exemption as stipulated in 2.2.1 above will apply. Section 2.1.3 will apply in these circumstances where an impermissible exclusion will be awarded on the first R15 000.00 of the valuation of the property.

2.3 **REBATE IN RESPECT OF PENSIONERS**

With regard to paragraph 2.2.2 a 30% additional rebate will be granted to persons at the age of 60 years and older.

For the purposes of 2.3 a ratepayer will be defined as follows: "A registered owner of rateable property who inhabits and controls the property and is responsible for the payment of rates on the property";

2.4 **REBATE IN RESPECT OF AGRICULTURAL AND PUBLIC SERVICE INFRASTRUCTURE PROPERTIES**

- 2.4.1 A rebate of 75% on rates (refer to 1.3) will be granted in respect of properties which are zoned and used for agricultural purposes;
- 2.4.2 A rebate of 75% on rates (refer to 1.3) will be granted in respect of properties which are zoned for public service infrastructure
- 2.4.3 No rebate on rates will be granted to businesses operating on agricultural properties.
- 2.4.4 The rebate granted to agricultural properties will be equal to seventy five percent (75%) of the rate payable by other rate payers. The differential rate will be calculated as follows:
 - (a) a 5% differential due to the fact that the municipality does not provide municipal roads;
 - (b) a 5% differential due to the fact that the municipality does not provide sewerage services;
 - (c) a 5% differential due to the fact that the municipality does not provide electricity services;
 - (d) a 10% differential due to the fact that the municipality does not provide water services;
 - (e) a 10% differential due to the fact that the municipality does not provide refuse removal services,
 - (f) a 10% differential due to the fact that the farm owner supplies 1 to 10 houses to farm workers.
 - (g) a 20 differential due to the fact that the farm owner supplies more than 10 houses to farm workers.
 - (h) a 10% differential due to the fact that the owner supplies work opportunities for less than 10 permanent workers.
 - (I) a 20% differential due to the fact that the farm owner supplies work opportunities for more than 10 permanent farm workers.

1.) ONLY ONE OF (F) & (G) CAN BE APPLICABLE

2.) ONLY ONE OF (H) & (I) CAN BE APPLICABLE

2.5 REBATE FOR PROPERTY TO SOCIAL-ECONOMIC ORGANISATIONS.

2.5.1 A rebate of 80% on rates will be granted to social-economic organisations based on the tariff applicable in the Kannaland area as outlined in section 1.6 above. But only when a tax certificate is provided.

4. EFFECTIVE DATE AND LAPSING

The above-mentioned property rates will become payable as from 1 July 2016. The above-mentioned property rates are levied for the Municipality's financial year ending on 30 June 2017, whereupon they will lapse and be replaced by new property rates determined by the Municipality's Municipal Council for the Municipality's financial year starting on 1 July 2017 and ending on 30 June 2018.

Table 4 – Comparison of proposed rates to be levied for the 2016/17 financial year

Category	CURRENT TARRIFF (1 July 2015) cent	PROPOSED TARRIFF (from July 2015) cent
Residential	0,01122964	0,011903418
Old age homes	0,00224720	0,002382032
Guesthouses	0,01403440	0,014876464
Spaza shops (residential + 5%)	0,01179038	0,012497803
Agricultural	0,00280900	0,002977540
Business	0,02048980	0,021719188

Water Tariffs

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. The situation is further influenced by the droughts experienced in the surrounding areas. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

During the tariff modelling exercise it was acknowledge that the basic charge for water does not cover the basic cost for the water service and that the structure needs to be changed and remodelled in future budgets.

A tariff increase of 10% from 1 July 2016 for water is proposed. In addition 6kl water per 30-day period will be granted free of charge to indigent households only. The tariff structure is designed to charge higher levels of consumption at a higher rate per kilolitre. With certain consumers paying an average fixed rate for water, these consumers include:

- Industries
- Large Businesses and B& B's
- Social and Services Institutions
- Old age home and frail care centres
- Churches, schools, hostels and Clubs
- Stand Pipe Consumers

A summary of the proposed tariffs for households (residential) and non-residential in Kannaland are as follows:

Table 5 – Proposed Water Tariffs

CATEGORY	CURRENT TARRIFF (2015/2016)	PROPOSED TARRIFF (2016/2017)
	Rand per kl	Rand per kl
RESIDENTIAL		
(i) 0 to 6 kl per 30 -day period	3,97	4,37
(ii) 7 to 15 kl per 30 -day period	4,54	4,99
(iii) 16 to 20 kl per 30 -day period	7,15	7,86
(iv) 21 to 30 kl per 30 -day period	8,51	9,36
(iv) above 30 kl per 30 -day period	9,98	10,98
NON-RESIDENTIAL		
Industries	8,51	9,36
Large Business and Guesthouses	7,37	8,11
Social and Services Institutions	5,90	6,49
Old Age Home and Frail Care Centres	5,90	6,49
Churches, Schools, Hostels and Clubs	5,90	6,49
Stand pipe consumers	5,90	6,49

The following table shows the impact of the proposed increases in water tariffs on the water charges for a single dwelling-house:

Table 6 – Comparison between current water charges and increases (Domestic)

Monthly consumption kl	Current amount payable R	Proposed amount payable R	Difference (Increase)	Percentage change
20	110,41	121,46	11,04	10%
30	203,99	224,38	20,40	10%
40	313,78	345,15	31,38	10%
50	423,57	465,92	42,36	10%
80	533,36	586,69	53,34	10%
100	752,94	828,23	75,29	10%

Electricity Tariffs

The proposed municipal electrical tariff increase is 7.64% whereas the prescribed tariff according to NERSA's guideline is 7.64%. According to NERSA certain of the municipality's electricity tariffs are too high and thus the reason why the increase is below the prescribed increase.

The municipality applies a seasonal tariff to the electricity usage thus an increased tariff is applied for the winter periods.

The following table shows the impact of the proposed increases in electricity tariffs on the domestic customers:

**Table 7 – Comparison between current electricity charges and increases
Domestic – Single phase consumer: one part Pre-Paid (VAT exclusive)**

Summer Tariffs

Monthly consumption kWh	Current amount payable 1,19 c /1.37c unit R	Proposed amount payable 1,28 c /1.47c unit R	Difference (Increase)	Percentage change
100	119,00	128,09	9,09	7,64
250	297,50	320,23	22,73	7,64
500	595,00	640,46	45,46	7,64
600	714,00	768,55	54,55	7,64
750	919,50	988,50	69,00	7,5040783
1000	1 262,00	1 356,00	94,00	7,44849445
2000	2 632,00	2 826,00	194,00	7,37082067

Winter Tariffs

Monthly consumption kWh	Current amount payable 1,42 c /1.57c unit R	Proposed amount payable 1,53 c /1.65c unit R	Difference (Increase)	Percentage change
100	142,00	152,85	10,85	7,64
250	355,00	382,12	27,12	7,64
500	710,00	764,24	54,24	7,64
600	852,00	917,09	65,09	7,64
750	1 087,50	1 165,50	78,00	7,17241379
1000	1 480,00	1 578,00	98,00	6,62162162
2000	2 910,00	3 228,00	318,00	10,9278351

Free 50kWh electricity per month is awarded to households who qualify in terms of municipality's Indigent Policy.

Sanitation tariffs

A tariff increase of 6% for sanitation from 1 July 2016 is proposed.

The following table compares the current and proposed tariffs:

Table 8 – Comparison between current sanitation charges and increases

Description	CURRENT TARIFF 2015/2016 Rand per year	PROPOSED TARIFF 2016/17 Rand per year	DIFFERENCE R	% INCREASE
Residential Unit p/a	1780,8	1 887,65	106,848	6%
Residential Old Age Unit p/a	1292,988	1 370,57	77,58	6%

Waste Removal tariff

A 6% increase in the waste removal tariff is proposed from 1 July 2016.

Table 9 – Comparison between current waste fees and increases for a single dwelling-house

Description	CURRENT TARIFF 2015/2016 Rand per year	PROPOSED TARIFF 2016/17 Rand per year	DIFFERENCE R	% INCREASE
Small Businesses	2292,144	2429,67264	137,52864	6%
Businesses	2292,144	2429,67264	137,52864	6%
Hotels B&B's and Self Catering	2313,72	2452,5432	138,8232	6%
Old Age Homes and Frail Care centres	1851,0144	1962,075264	111,060864	6%

Table 10 – Indigent household rebates

Description	2015/16 R	2016/2017 R
Electricity (50 units) - Summer	59,50	64,05
Electricity (50 units) - Winter	71,00	76,42
Water (basic charge)	66,52	73,17
Sanitation (basic charge)	148,40	157,30
Refuse (basic charge)	154,25	163,51
Total	499,67	534,45

Table 11 – Indigent households 60% rebate

Description	2015/16 R	2016/17 R
Electricity (50 units) – Summer	59,50	64,05
Electricity (50 units) - Winter	71,00	76,42
Water (basic charge)	-	-
Sanitation (basic charge)	26,61	29,27
Refuse (basic charge)	59,36	26,61
Total	216,47	196,34

Overall impact of tariff increases on households

The following table shows the overall expected impact of tariff increases on a large and small household, as well as an indigent household receiving free basic services.

It needs to be noted that the majority of indigent households in Kannaland are situated in the affordable house areas. The valuation of these houses is below R120 000 and due to rebates do not pay property rates.

Indigent households receive a discount on their services equal to the basic charge for water plus 6kl water free, 50kwh electricity units, the monthly levy for refuse and sanitation.

1.7 – Operating Expenditure Framework

The expenditure framework for the 2016/17 budget and MTREF is informed by the guidelines of National Treasury.

The following table is a summary of the 2016/17 MTREF (classified by main expenditure types):

Table 10 – Summary of operating expenditure by type

See schedule A1

The operating expenditure has increased from R 134 679 308.00 in 2015/16 to R 152,859,000.00 in 2016/17. The increase can be attributed to increases and decreases on several expenditure components.

Reasons for significant cost variances:

- Debt impairment – The calculation is based on the 2015/16 payment ratios and also the current economic climate in Kannaland and the implementation of GRAP1 (accounting for the impairment of traffic fines).
- Bulk purchases – The increase is based on the tariff for bulk purchases as set out by NERSA.
- Contracted Services – The budget for contracted services has increased due to the operational expenditure

Table 11 – Repairs and maintenance per asset by class

See SA34C

1.8 – Capital Budget

The capital budget increased from R 42 464 085.00 (2015/16) to R 54 589 850.00 in 2016/17.

The Budget task team went through several stages of prioritising the capital budget to contain the budget within the available funding.

This capital budget has been compiled with due consideration to the direct impact that it would have on the operating budget and our cash position where projects are to be funded solely from internal sources and not external borrowings.

With the current financial constraints that exist on budget it was decided to not obtain external funding for capital projects.

The capital budget reflects the following budget allocation to the various Departments and reflects the strategic priorities outlined in the IDP.

Internal Funding

One of the main challenges impacting on the capital budget is the inadequate contributions to the Capital Replacement Reserve (CRR) for previous years as well as the current budget year. This situation emphasises the need to expand the municipality's current income base through exploring other income sources. The Budget Committee re-affirmed the need for revenue enhancement measures in order to broaden the income base.

No contributions were made to the CRR in the February 2016 Adjustments Budget from the working capital.

Currently the municipality is not providing for any contributions to the CRR. Should the municipality find itself in the position where surpluses exists adjustments can be made later in the year during the adjustment budget process.

The budget task team went through a process of tariff modelling and realised that additional income had to be generated over and above the annual increase in tariffs to fund its asset renewal programme. The master plans for the core services indicate that urgent upgrading and renewal need to be done to the infrastructure.

The increase in human settlements development is putting further strain on the bulk services. The Municipal Infrastructure Grant is not matching this increase in demand.

Although the budgeted income and expenditure are realistically anticipated, the situation regarding the available internal funds will be monitored closely and expenditure on capital projects linked to the CRR will be managed according to the available cash.

External Funding

The task team has reconfirmed its commitment not to rely on external funding to fund the capital budget due to the financial constraints that exist.

The planned provision made within this budget for external funds for 2016/17 amounts to R 0.

1.9 – Budget Schedules

The Municipal Budget and Reporting Regulations are designed to achieve a range of objectives, including improving the local government sphere's ability to deliver basic services by facilitating improved financial sustainability and better medium term planning and policy choices on service delivery.

Narrative will only be provided at certain tables to clarify certain aspects otherwise it will be a repetition of what has already been documented.

Find attached to this document the budget schedules

Part 2 – Supporting documentation

2.1 - Disclosure on implementation of the MFMA & other applicable legislation

Municipal Finance Management Act – No 56 of 2003

The MFMA became effective on 1st July 2004. The Act aims to modernise budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Kannaland has been designated as a medium capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

2.2 – The budget preparation process

2.2.1 – Overview

A central element of the reforms is a change to the way that municipalities prepare their budgets.

The MFMA requires a council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities (as contained in the IDP) and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and particulars on borrowing, investments, municipal entities and service delivery agreements, grant allocations and details of employment costs.

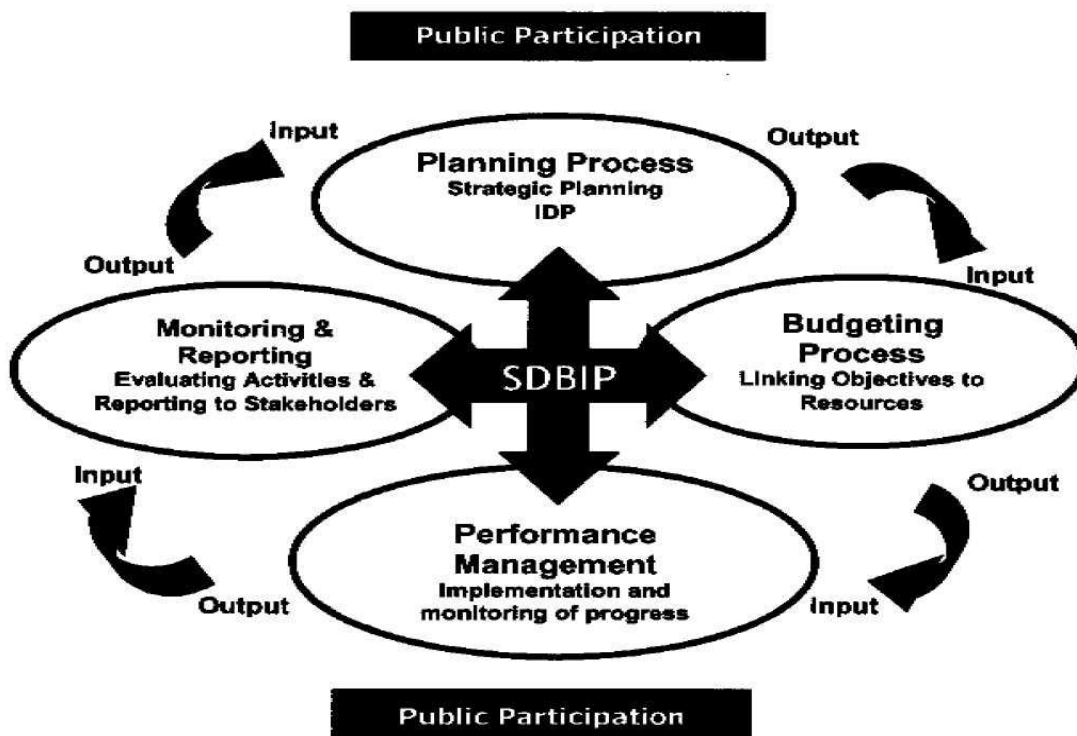
The budget may be funded only from realistic estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

2.2.2 – Budget preparation timetable

The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the municipality's IDP and budget-related policies.

The budget preparation timetable should be prepared by senior management and tabled by the mayor for council adoption ten months before the commencement of the next budget year.

The next diagram depicts the planning, implementation and monitoring process that is followed in Kannaland Municipality.



In terms of Section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year a time schedule of key deadlines that sets out the process to revise the IDP and prepare the budget.

Table 29 – Schedule of Key Deadlines relating to the budget process

[illegible]

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	next 3 financial years													
	Determine the funding/revenue potentially available for next 3 years	Chief Financial Officer						15						
	Determine the likely financial outlook and identify changes to fiscal strategies	Chief Financial Officer					28							
	Refine funding policies; review tariff structures	Chief Financial Officer							30					
	Evaluation of matters identified in IDP Assessment Report received from MEC: Local Government	IDP Coordinator						14						
	Determine any changes in the Socio-economic conditions & trends of Kannaland Municipality	Senior Management		27										
Consultation	Advertising a schedule of public meetings per ward	IDP Coordinator	06											
	Embarking on a public participation process via public meetings per ward to:	Executive Mayor				13	06							
		Councillors												
	<ul style="list-style-type: none"> Provide feedback on progress of ward priorities Presentation of IDP Review & Budget time schedule Obtain input on community needs for the 	Senior Management												

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	IDP Review process													
	Incorporate the concept of Community Based Planning (CBP) into the public participation process	IDP Coordinator	15											
Strategy	Strategic Planning Session to conduct a mid-term review:					18								
	<ul style="list-style-type: none"> Council's Strategic Objectives Assessment of the performance of implementation of Council's 5yr strategic plan (2012-2017 IDP) 	Executive mayor Senior Managers												
	Table Revised Strategic Plan Council for approval	Executive mayor Senior Managers					21							
	Prioritisation of development objectives, projects & programmes by Ward Committees:	Ward Councillors Ward Committees IDP Coordinator Communication Officer			15	19				28				
	<ul style="list-style-type: none"> Facilitate a more inclusive consultation process for the prioritisation of ward projects/programmes 													

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	IDP Indaba 1 engagement	Municipal Manager			12									
	<ul style="list-style-type: none"> Alignment of Strategic objectives of the municipality with that of the provincial and national government departments 	IDP Coordinator												
	District IDP Managers Forum Meeting	Eden District								24				
		IDP Coordinator												
	Provincial IDP Managers Forum Meeting	Provincial Dept. of Local Government												
		IDP Coordinator												
	IDP INDABA 2 engagement:	Provincial Dept. of Local Government								26				
	<ul style="list-style-type: none"> Identify projects & programmes which might need support/financial assistance from Government Referring of community issues which have been identified during IDP process but are not competencies of Local Government to the relevant National & Provincial Sector Departments Follow up on IDP Indaba 	IDP Coordinator												

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	agreements													
	Identification of new Capex/Opex projects & programmes culminating from the IDP Review Process	All departments						15						
	Prioritisation of internal & external Capex & Opex projects & Programmes	IDP & Budget Steering Committee							25					
	Workshop for the preparation of Adjustment Budget	Chief Financial Officer							22					
	Tabling & approval of Adjustment Budget <i>(to be approved before 28 Feb 2015)</i>	Chief Financial Officer								26				
	Workshop with Council to finalize: <ul style="list-style-type: none"> Draft IDP Review Draft Operational & Capital Budget 	Executive Mayor Senior Management									23			
Integrati on	Quarterly meetings of IDP & Budget Steering Committee	Executive Mayor				23			22		12			
		CFO												

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
		IDP Coordinator												
		Municipal Manager												
	Preparation of draft IDP Review document	IDP Coordinator							13					
	Circulation of draft IDP Review document to all directorates for their input & comment	IDP Coordinator								24				
	Tabling of draft IDP Review & Budget to MAYCO	Municipal Manager									21			
		CFO												
	Tabling of draft IDP Review & Budget to Council	Executive Mayor Council									24			
	Submission of tabled draft IDP Review & Budget to the MEC: Local Government, National & Provincial Treasury (Within 10 working days after tabling)	IDP Coordinator									29			
		CFO												
	Publishing of draft IDP Review & Budget (including proposed tariffs) for perusal and public comment	IDP Coordinator									29			
		CFO												
Consultation	Embarking on a public participation process via public meetings per ward to obtain final input from stakeholders on the tabled draft IDP & Budget	Executive Mayor										13	08	
		Councillors												
		Senior Management												

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	LGMTEC 3 engagement with Provincial & National Sector Departments to obtain input on the draft IDP Review & Budget	Provincial Department of Local Government										22		
	Incorporate notes and comment from MEC: Local Government & Provincial Treasury and DEA&DP on draft IDP Review & Budget	IDP Manager CFO										23		
Approval	Consideration of all submissions made by community subsequent to the public participation process of the draft IDP Review & Budget	IDP Manager CFO											16	
	MAYCO meeting to consider the submissions and, if necessary, to adjust the draft IDP and Budget	Municipal Manager											21	
	Council workshop on draft IDP Review & Budget prior to adoption	CFO IDP Manager											22	
	Council meeting to adopt the final IDP Review & Annual Budget and the Performance Management measures and targets	Executive Mayor Municipal Manager Council											27	
	(At least 30 days before the start of the budget year)													
	Management workshop to finalize the SDBIP's	Performance and Compliance Officer											02	

KANNALAND MUNICIPALITY IDP REVIEW AND BUDGET PROCESS			JULY 2016 – JUNE 2017											
Phase	Activity	Responsible person	JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
	Publish the adopted IDP Review & Budget with all budget related documents and policies on the municipal website	IDP Coordinator CFO											02	
	Submit a copy of the adopted IDP Review & Budget to the MEC: Local Government and Treasury	IDP Coordinator CFO											27	
	(Within 10 working days after adoption)													
Finalization	Advertise a public notice of the adoption of the IDP	IDP Coordinator											02	
	Publish a summary of the IDP and Budget on municipal website	IDP Coordinator											02	
	Approval of the Service Delivery & Budget Implementation Plan (SDBIP) (within 28 days of approval of budget)	Executive Mayor												08

2.2.3 – Tabling of the draft budget

The initial draft budget must be tabled by the mayor before council for review by 31 March.

Once tabled at council, the municipal manager must make public the appropriate budget documentation and submit it to both the national and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

The municipal budget was tabled before Council on 29 March 2015.

2.2.4 – Consultation with the community and key stakeholders

When the draft budget is tabled, council must consider the views of the local community, the national and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

This process will be finalised during April – and May 2016.

A complete report regarding the feedback on the public participation process will be included in the IDP document.

Proposed dates for IDP Public engagements: 2016/17 IDP review and budget cycle

Date	Day	Time	Ward	Venue	Ward Councillor
DRAFT IDP / BUDGET					
October			1	Community Hall	Ald Donson
October			2	Community Hall	Councillor Meshoa
October			3	Sport Club Hall	Speaker Ruiters
October			4	Town Hall	Councillor Rossouw
FINAL IDP / BUDGET					
April	04		1	Community Hall	Ald Donson

April	07		2	Community Hall	Councillor Meshoa
April	05		3	Sport Club Hall	Speaker Ruiters
April	06		4	Town Hall	Councillor Rossouw

2.3 – Service Delivery and Budget Implementation Plan (SDBIP)

The municipal manager must within fourteen days after the approval of the annual budget submit to the mayor for approval a draft service delivery and budget implementation plan and draft annual performance agreements for all pertinent senior staff.

A service delivery and budget implementation plan is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The mayor must approve the draft service delivery and budget implementation plan within 28 days of the approval of the annual budget.

This plan must then be monitored by the mayor and reported on to council on a regular basis. The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Generally, councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if council has approved the project. Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Kannaland Municipality – 2016/17 Annual Budget and MTREF

2.4 – Alignment of Annual Budget with IDP

Local priorities were identified as part of the IDP process which is directly aligned to that of national and provincial priorities.

The IDP strategic objectives and goals are set out in the IDP document.

Kannaland is the place of choice and this along with the strategic vision and mission has led to the conceptualisation of five strategic goals for Kannaland. These goals are as follows:

Strategic Objective	Key Performance Area
To provide access to reliable infrastructure that will contribute to a higher quality of life for Kannaland citizens.	Infrastructure
To provide adequate Services and improve our Public relations.	Services and public relations
To strive towards a safe community in Kannaland through the proactive management of traffic, environmental health, fire and disaster risks.	Safe Community Environment
To facilitate Economic Growth and Social and Community development.	Economic Growth and Development
To promote efficient and effective Governance with high levels of stakeholder participation.	Governance and Stakeholder participation
To provide an efficient workforce by aligning our institutional arrangements to our overall strategy.	Institutional Transformation
To strive towards a financially sustainable municipality.	Financial Sustainability

The above strategic goals are set to become the catalysts to ensure that the vision and mission is achieved in the next five years.

The 2016/17 MTREF has therefore been directly informed by the IDP and the following tables provide reconciliation between the IDP strategic objectives and goals.

2.5 – Measurable Performance Objectives (MPO'S) and Indicators

The MPO's included in the table below are only those that are linked to basic service delivery.

The key financial indicators and ratios are expressed in the table below:

SA8: Financial Indicators and benchmark

2.6 – Overview of budget related policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Section 17 (3) (e) of the Municipal Finance Management Act, (Act No 56 of 2003) prescribes that the Municipality must review the budget related policies annually. Herewith follows suggested changes to Council's budget related policies.

The budget committee considered amendments to various policies and the following budget related policies were reviewed:

1. Customer Care, Credit Control and Debt Collection Policy;
2. Property Rates Policy;
3. Tariff Policy,
4. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
5. Indigent Policy;
6. Virement Policy;
7. Cash Management and Investment Policy;
8. Supply Chain Management Policy;
9. PPPFA Policy;
10. Asset Management Policy;
11. Funding Borrowing & Reserve Policy;
12. Long Term Financial Plan;
13. Liquidity Policy;
14. Budget Implementation and Monitoring Policy.
15. Bad debt write off policy
16. Fleet Management Policy
17. Grants-in-aid Policy
18. Travel and Subsistence Policy
19. Risk Management Policy
20. Capital Contributions for new developments
21. Water losses policy
22. Electricity losses policy
23. Public participation policy

The Budget task team has indicated that the finalization of the draft policy changes will be finalized after the budget consultation process is completed. The draft policies are contained in the budget document and place on municipal website for public comment.

The following financial policies need to be reviewed in future:

- Infrastructure Investment and capital projects including –
 - Planning and Approval of Capital projects Policy on Developer Contributions – this is included in the tariff policy.
- Unforeseen and Unavoidable expenditure
- Policy dealing with Management and Oversight

Budget related policies are attached as Annexures to this document.

2.6.1 – Review of current policies

2.6.1.1 Customer Care, Credit Control and Debt Collection Policy

The policy has been reviewed no material changes have been done.

2.6.1.2 Property Rates Policy

The policy has been reviewed no material changes have been done.

2.6.1.3 Tariff Policy

The policy has been reviewed no material changes have been done.

2.6.1.4 Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy

The policy has been reviewed no material changes have been done.

2.6.1.5 Indigent Policy

The policy has been reviewed no material changes have been done.

2.6.1.6 Virement Policy

The policy has been reviewed no material changes have been done.

2.6.1.7 Cash Management and Investment Policy

The policy has been reviewed no material changes have been made.

2.6.1.8 Supply Chain Management Policy

The policy has been reviewed no material changes have been made.

2.6.1.9 PPPFA Policy

The policy has been reviewed no material changes have been made.

2.6.1.10 Asset Management Policy

The policy has been reviewed no material changes have been made.

2.6.1.11 Funding Borrowing & Reserve Policy

The policy has been reviewed no material changes have been made.

2.6.1.12 Long Term Financial Plan

This is a new plan developed by the municipality.

2.6.1.13 Liquidity Policy

This is a new policy necessary for the Long Term Financial Plan.

2.6.1.14 Budget Implementation and Monitoring Policy

The policy has been reviewed no material changes have been made.

2.6.1.15 Bad debt-write off policy

The policy has been reviewed no material changes have been made.

2.6.1.16 Fleet Management Policy

The policy has been reviewed no material changes have been made.

2.6.1.17 Grants-in-aid Policy

The policy has been reviewed no material changes have been made.

2.6.1.18 Travel and Subsistence Policy

The policy has been reviewed no material changes have been made.

2.6.1.19 Risk Management Policy

The policy has been reviewed no material changes have been made.

2.6.1.20 Capital Contributions for new developments

The policy has been reviewed no material changes have been made.

2.6.1.21 Water losses policy

The policy has been reviewed no material changes have been made.

2.6.1.22 Electricity losses policy

The policy has been reviewed no material changes have been made.

2.6.1.23 Public participation policy

The policy has been reviewed no material changes have been made.

2.7 – Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. This section provides a comprehensive summary of all the assumptions used in preparing the budget.

2.7.1 – National Treasury MFMA Circular No 78 & 79

These Circulars was issued on 7 December 2015 and 7 March 2016 respectively, and it provides further guidance to municipalities for the preparation of the 2016/17 budget and MTREF and was used in preparing this budget. A copy of the Circulars is attached as an Annexure to this document.

2.7.2 – Inflation Outlook

In MFMA Circular No 79, inflation forecasts are estimated at 4.6%, 6.2% and 5.9% respectively for the years 2017 to 2019.

2.7.3 – Rates, tariffs, charges and timing of revenue collection

The Budget Committee made use of tariff modelling to calculate realistic tariff increases. Although the budget committee endeavoured to contain the increase within the 6% upper boundary of the South African Reserve Bank's inflation target, the model indicated that this was not possible. In order to have a funded budget the following tariff increases are recommended for the 2015/2016 financial year:

	Base Budget 2015/16	Draft Budget 2016/17	Budget 2017/18	Budget 2018/19
Rates		6%	6%	6%
Tariffs:				
Water		10%	6%	6%
Sewerage		6%	6%	6%
Electricity		7.6%	6%	6%
Cleansing		6%	6%	6%
General Charges		7%	6%	6%

The cash flow statement shows when rates and tariffs are expected to be collected over the financial year. In general terms, the timing of rates, tariffs and charges are based on the following:

Rates	Monthly billing. Interim billing throughout the year.
Tariffs	Monthly billing. On-going prepayment meters. Seasonal fluctuations.
Charges	Generally steady state throughout the financial year with seasonal fluctuations

2.7.4 – Collection rates for each revenue source and customer type

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

		2016/17 R	2017/18 R	2018/19 R
Provision for bad debts and doubtful debts - service debt		15 761 380.00	16 719 810.00	17 736 570.00
Assumed collection rate				
Provision for bad and doubtful debts - fines		N/A	N/A	N/A

2.7.5 – Price movements on specifics e.g. bulk purchases

The following amounts are included in the MTREF for increases in bulk purchases;

	2016/17 R	2017/18 R	2018/19 R
ESKOM	30 719 810,00	32 563 010,00	34 516 800,00

2.7.6 – Average salary increases

The MTREF includes the following average percentage increases for wages, salaries and for councillors' remuneration;

Description	2016/2017 R	2017/2018 R	2018/2019 R
Councillors	0,0%	6%	6%
Section 57 employees	0,0%	6%	6%
Salaried employees	7,6%	6%	6%
Casual employees	0,0%	6%	6%

No provision was made for the following:

- Increases for Councillors, top management and all contract workers
- Bonuses for Top management and all contract workers
- Travel allowances for staff members not traveling the minimum kilometres per month
- S&T's cut backed by 50%

2.7.7 – Industrial relations climate, reorganisation and capacity building

The ability of the Municipality to deliver quality services is virtually entirely dependent on its staff. Failure by the Municipality to invest in its staff to ensure that the capacity and skills exist to meet the challenges being faced by Kannaland will ultimately mean a failure to deliver services. Currently the municipality face financial constraints which do not make it possible for all employees to receive the required training. As result the municipality has developed a training plan to prioritise critical training. The municipality is also facing capacity constraints which cannot be merely rectified through training.

The Municipality has made the following amounts available for training over the MTREF period.

Description	2016/17 R	2017/18 R	2018/19 R
Training budget	557 280.00	590 716.80	626 159.81

2.7.8 – Trends in demand for free or subsidised basic services

Kannaland's criteria for supporting free or subsidised basic services are set out in the Indigent Policy. The Government allocates revenue via the Equitable Share grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the Equitable Share allocation must be paid by the consumer.

The proposed allocation to Indigent households will have the following financial consequences:

SUMMARY OF EQUITABLE SHARE ALLOCATION			
DESCRIPTION	BUDGET 2015/16 R	BUDGET 2016/17 R	BUDGET 2017/18 R
Electricity	4 945 460,00	5 148 550,00	5 427 310,00
Water	3 010 280,00	3 133 900,00	3 303 580,00
Refuse	3 870 360,00	4 029 300,00	4 247 460,00
Sanitation	4 515 420,00	4 700 850,00	4 955 370,00
Rates	4 300 400,00	4 477 000,00	4 719 400,00
Council- Equitable	860 080,00	895 400,00	943 880,00
Council - Salary	1 198 000,00	1 268 000,00	1 341 000,00
Ward Committee members	240 000,00	240 000,00	240 000,00
Gazetted Amount	22 940 000,00	23 893 000,00	25 178 000,00

The proposed package of free basic services allocated to the indigents consists of the following:

Description	2015/16 R	2015/16 R
Electricity (50 units) - Summer	59,50	64,05
Electricity (50 units) - Winter	71,00	76,42
Water (basic charge)	66,52	73,17
Sanitation (basic charge)	148,40	157,30
Refuse (basic charge)	154,25	163,51
Total	499,67	534,45

The proposed package of free basic services allocated to the needy (60% rebate) consists of the following:

Description	2015/16 R	2016/2017 R
Electricity (50 units)	35,70	38,43
Water (basic charge)	42,60	45,85
Sanitation (basic charge)	39,91	43,90
Refuse (basic charge)	89,04	94,38
Total	207,25	222,57

2.7.9 – Ability of the municipality to spend and deliver on the programmes

The following table illustrates the capital expenditure based on the mid-year budget and performance assessment for 2015/**2016**.

WC041 Kannaland - Table C5 Monthly Budget Statement - Capital Expenditure (municipal vote, standard classification and funding) - M06 December

Vote Description	Ref	2014/15	Budget Year 2015/16							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands	1									
Multi-Year expenditure appropriation	2									
Vote 1 - Executive Council		-	-	-	-	-	-	-		-
Vote 2 - Corporate Services		-	-	-	-	-	-	-		-
Vote 3 - Financial Services		-	-	-	-	-	-	-		-
Vote 4 - Technical Services		-	-	-	-	-	-	-		-
Vote 5 - 0		-	-	-	-	-	-	-		-
Vote 6 - 0		-	-	-	-	-	-	-		-
Vote 7 - 0		-	-	-	-	-	-	-		-
Vote 8 - 0		-	-	-	-	-	-	-		-
Vote 9 - 0		-	-	-	-	-	-	-		-
Vote 10 - 0		-	-	-	-	-	-	-		-
Vote 11 - 0		-	-	-	-	-	-	-		-
Vote 12 - 0		-	-	-	-	-	-	-		-
Vote 13 - 0		-	-	-	-	-	-	-		-
Vote 14 - 0		-	-	-	-	-	-	-		-
Vote 15 - 0		-	-	-	-	-	-	-		-
Total Capital Multi-year expenditure	4,7	-	-	-	-	-	-	-		-
Single Year expenditure appropriation	2									
Vote 1 - Executive Council		-	540	540	-	-	540	(540)	-100%	540
Vote 2 - Corporate Services		-	-	-	-	-	-	-		-
Vote 3 - Financial Services		-	29 445	29 445	857	4 334	26 201	(21 867)	-83%	30 135
Vote 4 - Technical Services		-	560	560	-	109	560	(451)	-80%	560
Vote 5 - 0		-	-	-	-	-	-	-		-
Vote 6 - 0		-	-	-	-	-	-	-		-
Vote 7 - 0		-	-	-	-	-	-	-		-
Vote 8 - 0		-	-	-	-	-	-	-		-
Vote 9 - 0		-	-	-	-	-	-	-		-
Vote 10 - 0		-	-	-	-	-	-	-		-
Vote 11 - 0		-	-	-	-	-	-	-		-
Vote 12 - 0		-	-	-	-	-	-	-		-
Vote 13 - 0		-	-	-	-	-	-	-		-
Vote 14 - 0		-	-	-	-	-	-	-		-
Vote 15 - 0		-	-	-	-	-	-	-		-
Total Capital single-year expenditure	4	-	30 545	30 545	857	4 444	27 301	(22 857)	-84%	31 235
Total Capital Expenditure		-	30 545	30 545	857	4 444	27 301	(22 857)	-84%	31 235

Spending is monitored closely throughout the year and Directors must ensure that capital programmes are supported by robust planning. The Municipality is currently reviewing its capital planning processes.

The SDBIP includes monthly cash flows of expenditure and is used as the basis for budget monitoring. Monthly Section 71 meetings with portfolio councillor, municipal manager, directors and the budget office also forms part of the monitoring tool and directorates must give reasons for poor performance and over spending and put corrective measures in place.

2.7.10 – Capital Budget

The municipality provided grant funded projects as gazetted in the Division of Revenue Act, for the 2016/2017 annual budget.

External funding will not be used to finance capital projects.

2.7.11 – Implications of restructuring and other major events in the future

The municipality is currently in the process of implementing changes to the micro structure. These changes are being done internally with the existing staff component. These changes will be implemented to streamline service delivery and to affect savings.

2.7.12 – Budgeting for contingency plans for prolonged power outages

This Municipality is in the process of implementing contingency plans to address Eskom power outages. Due to financial constraints the municipality would only be able to realise these goals in the adjustment budget.

However it has been established that the government is collectively working with Eskom to mitigate the impact of power cuts. These efforts will improve the availability of electricity over the medium term, and plans are under way to ensure that South Africa can generate sufficient energy to power its economy over the long term. The government consistently encourages a reduction in energy consumption and promotion of energy efficiency.

Consequently the response from government is to address the immediate challenge and it would therefore be premature for municipalities to invest in contingency infrastructure with the expectation of funding.

2.7.13 Councillors and employee benefits

The total remuneration has increased from R 49 651 085.00 for 2015/2016 to R51 349 950.00 2016/2017. The increase of R1 698 865.00 can be contributed to:

- Salary increase of 7.6% salaried employees.

The municipality managed to limit the excessive increase in employee cost through implementing the following cost savings:

Description	Saving in Rand
Salary increases councillors not provided	(209 893,84)
Salary increases of s57 employees not provided	(342 216,29)
Increase in casual worker wages not provided	(1 541 898,05)
Bonusses directors and casual workers not provided	(131 010,34)
Task implementering nie ingesluit	(1 358 284,66)
Vervoertoelae nie ingesluit by begroting	(860 634,92)
Oortyd halveer	(313 679,12)
Waarneming nie ingesluit	(350 233,05)
	(5 107 850,26)

2.8 Municipal Manager’s Quality Certificate

I,....., The Municipal Manager of Kannaland Municipality
herby certify that the annual budget and supporting documentation for the 2016/2017
Financial Year, have been prepared in accordance with the Municipal Finance Management
Act and regulations made under the Act, and that the annual budget and supporting
documentation is consistent with the Integrated Development Plan.

Print name
Municipal Manger of
Signature
Date